

Message Text

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12

ACTION ARA-10

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FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 6929

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

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E.O. 11652 - N/A

TAGS: ETRD, ECIN, XK, ES

SUBJ: CACM TRADE STRESSES

GUATEMALA FOR ROCAP

REF: A) MANAGUA 5480; B) SAN SALVADOR A163; C) SAN JOSE 4483;

1. RECENT STRESSES IN CACM TRADE AFFECTING EL SALVADOR HAVE RESULTED IN LEGISLATION, LOBBYING EFFORTS BY THE PRIVATE SECTOR, AND CONSIDERABLE HEAT OFTEN ATTRIBUTABLE TO MISUNDERSTANDINGS. THIS REPORT PROVIDES THE VIEWS OF KEY GOES ECONOMY MINISTRY OFFICIALS AND OUR INTERPRETATION OF THESE DEVELOPMENTS.

2. AS REPORTED IN REFS A AND B, NICARAGUA'S EMBARGO OF IMPORTS OF SHOES AND TEXTILES FROM EL SALVADOR AND GUATEMALA BEGAN ABOUT MID-OCTOBER. MINECON OFFICIALS, VICE MINISTER VALENCIA AND DIRECTOR FOR ECONOMIC INTEGRATION FUESTES CASTELLANOS, SAY THAT WORD OF THE GON ACTION WAS RECEIVED FROM THE PRIVATE LIMITED OFFICIAL USE

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SECTORQM SINCE THE END OF OCTOBER THERE HAVE BEEN NUMEROUS

CONTACTS BETWEEN THESE OFFICIALS AND THEIR EQUIVALENTS IN THE GON, INCLUDING CONSULTATIONS IN MANAGUA AND AT THE LAST MEETING OF THE VICE MINISTERS OF ECONOMY. VALENCIA REPORTS THAT THE GON HAS SAID IT WILL LIFT THE EMBARGO BUT NO DATE HAS BEEN GIVEN. THE GOES RECOGNIZES THE GON CONCERN FOR ITS BALANCE OF PAYMENTS BUT ALSO NOTES THAT THE TIMING OF THE EMBARGO MAXIMIZES THE EFFECT SINCE PRE-CHRISTMAS IMPORTS WOULD BE SEASONALLY HIGH. LOCAL OFFICIALS ARE HOPEFUL GON WILL REMOVE THE EMBARGO ON OR ABOUT JANUARY 1. THEY REPORT THAT THE EPISODE HAS BEEN CHARACTERIZED BY AN ABSENCE OF DOCUMENTATION AND WRITTEN COMMUNICATIONS. THE GOES HAS REQUESTED DATA JUSTIFYING THE GON ACTION. GOES DATA DO NOT, ACCORDING TO THE MINECON, CONFIRM SALVADORAN EXPORTS EXCEEDING THE MARCH 1973 QUOTA AGREEMENT (WHICH PROVIDES 5 PERCENT ANNUAL GROWTH OVER A 1971 BASE). THE PRIVATE SECTOR, ESPECIALLY THE ASI, HAS BEEN VOCAL IN THE PRESS AND TO THE GOVERNMENT BUT ADMITS PRIVATELY EL SALVADOR HAS LITTLE LEVERAGE DUE TO THE QUOTE UNFORTUNATE AGREEMENT OF 1973 UNQUOTE AND THE SIZEABLE TRADE SURPLUS IT RUNS WITH NICARAGUA. THEY HAVE URGED THE GOES TO COORDINATE WITH GUATEMALA ON THE ISSUE. MINECON OFFICIALS SAY THAT THUS FAR NO ACTION ON THE ISSUE HAS BEEN COORDINATED WITH THE GOG. THEY ARE HOPEFUL FOR SOME ADVANCEMENT OF THE RESOLUTION AT THE DEC 1, MANAGUA MEETING.

3. SUBSEQUENT TO THE GON EMBARGO ACTION THERE WERE CONVERSATIONS BETWEEN THE GOES AND GOCR ECONOMIC OFFICIALS FOCUSING ON THE EXPECTED TRADE SHIFT TOWARD THE COSTA RICAN MARKET BY AFFECTED SALVADORAN EXPORTERS. LOCAL OFFICIALS SAY NOTHING WAS SIGNED BUT AN UNDERSTANDING WAS REACHED THAT THE GOES WOULD MONITOR THE TRADE AND URGE RESTRAINT THE PART OF SALVADORAN TEXTILE EXPORTERS.

4. COMMENT: THE REPORTED LACK OF COORDINATION BETWEEN THE GOES AND GOG IS NOT CLEARLY UNDERSTOOD, EXCEPT THAT RESPECTIVE INDUSTRY FACTORS MAY DISTINGUISH BETWEEN THE COUNTRIES' PROBLEMS. PRELIMINARY REGIONAL TRADE DATA FOR NINE MONTHS 1974 SHOW A CUMULATIVE SURPLUS IN EL SALVADOR'S FAVOR OF \$27.5 MILLION: 10.8 WITH GUATEMALA, 11.6 WITH NICAJAGUA AND 5.1 WITH COSTA RICA. THUS, LITTLE LEVERAGE LIMITED OFFICIAL USE

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IS AVAILABLE TO THE GOES ON GROUNDS OF EQUITY; NOR, GIVEN THE AGREEMENT OF 1973 IS THERE MUCH LEGAL ARGUMENT AVAILABLE TO THE GOES. ALTHOUGH WE HAVE THE IMPRESSION THAT THE GON'S QUOTAS PROBABLY HAVE BEEN EXCEEDED BY SALVADORAN GOODS, UNTIL SUCH TIME AS DATA ARE PROVIDED THE GOES, SALVADORANS WILL CONTINUE TO SAY THE ACTION IS ARBITRARY. BUT APART FROM JUSTIFICATION OF THE GON ACTION, ITS EMBARGO ACTION BEFORE OFFICIAL COMMUNICATION RANKLED BOTH PRIVATE AND PUBLIC

SALVADORAN SECTOR AND ENFORCED THE SUSPICION THAT THE ACTION WAS NOT JUSTIFIED AND REFLECTED DEFENSIVE ACTIONS INSPIRED BY SOMOZA BUSINESS INTERESTS.

5. ON OCT 19, THE LEGISLATIVE ASSEMBLY APPROVED A MEASURE WHICH PERMITS DUTY EXONERATION ON IMPORTED RAW MATERIAL AS DETERMINED BY THE MINECON ON A CASE BY CASE BASIS (SEE REPAIR). MINECON OFFICIALS TOLD US THE PRIMARY MOTIVE FOR THE MEASURE IS TO PROVIDE RELIEF IN INSTANCES WHERE IMPEDIMENTS OCCUR (EITHER COST OR DELIVERY) IN OBTAINING RAW MATERIALS FROM WITHIN THE CACM. THE PROBLEM OF OBTAINING ADEQUATE SUPPLY OF WOOD FROM GUATEMALA AND NICARAGUA IS THE EXAMPLE CITED. THE LUW ALSO EXTENDS BENEFITS TO THE FEW WHO HAVE NOT BEEN GRANTED FISCAL INCENTIVES BY DECREE. VALENCIA SAID THE GOG ALREADY HAS SUCH LEGISLATION. OFFICIALS ARE AWARE THAT THE MEASURE, IF LIBERALLY APPLIED, COULD REPRESENT ANOTHER NAIL IN THE CACM'S COFFIN AND THEY PLEDGE SCRUPULOUS APPLICATION.

6. REF C REPORTED COSTA RICAN PRIVATE AND OFFICIAL REACTION TO ALLEGED SALVADORAN DISCRIMINATORY APPLICATION OF TEMPORARY LUXURY TAXES AND HINTED OF POSSIBLE GOCR RETALIATORY MEASURES. BASED UPON OUR FREQUENT CONTACTS WITH ECONMIN OFFICIALS AND LOCAL BUSINESS THERE APPEARSTO HAVE NO BASIS FOR THIS ALLEGATION. WE HAVE REPORTS, E.G. COSMETICS, THAT THE APPLICATION OF THE TEMPORARY TAX EFFECTIVELY FAVORS COSTA RICAN

PRODUCT RELATIVE TO SALVADORAN. IN THE RECOGNIZED POSSIBILITY OF TRUTH IN THE ALLEGATION WE WOULD APPRECIATE FROM EMBASSY SAN JOSE ANY EXAMPLES GIVEN THE COSTA RICANS.

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7. COMMENT: IT IS TO BE EXPECTED THAT A GROWING NUMBER OF BEGGAR-YOUR-NEIGHBOR TRADE ACTIONS WILL ACCOMPANY THE DETERIORATION OF BALANCE OF PAYMENTS ACCOUNTS AND GENERAL DOWNTURN OF ECONOMIC ACTIVITY WITHIN THE CACM. PARTICULARLY WILL THIS BE NOTICED IN THE TEXTILE AND SHOW TRADES, WHERE WEUKNESS IN THIRD MARKETS WILL SHIFT EXPORTS PRESSURES TO CACM NEIGHBORS. WHEN THE CAN MOVES FROM THE THEORETICAL THE THE PRACTIVAL (FOR EXAMPLE, PRIOR TO JUNE 1975 WHEN THE ISSUE OF FISCAL INCENTIVES MUST BE AGAIN CONFRONTED), THIS ECONOMIC ENVIRONMENT PORTENDS DIFFICULTIES IN ACHIEVINGN THE NECESKARY DEGREE OF SELFLESS UNITY ON CACM INDUSTRIAL AND FISCAL POLICY. IT WOULD APPEAR MORE IMPERATIVE THAN EVER THAT A FORMAL MECHANISM BE ESTABLISHED, WITH A FIXED FREQUENCY OF MEETINS, TO MONITOR AND RESOLVE REGIONAL TRADE ISSUES. CAMPBELL

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